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Item 5 of the provisional agenda

[INSURANCE]

REVIEW OF PROGRESS MADE ON THE WORK PROGRAMME

Review of activities of the secretariat pertaining to the work programme

Report by the UNCTAD secretariat

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INTRODUCTION

1. The Standing Committee on Developing Services Sectors - Insurance, at its third session, continues the work set out by the Trade and Development Board (Board decision 398 (XXXVIII)) and by two previous sessions of the Committee, held in Geneva from 1 to 5 February 1993 and 4 to 8 July 1994, respectively. The Standing Committee at its first session defined the work programme in the field of insurance (TD/B/39(2)/19 and TD/B/CN.4/18) while at the second session it adopted recommendations on the continuation of its work (TD/B/41(1)/8 and TD/B/CN.4/38). The work so far has been conducted following the direction given by UNCTAD VIII, as reflected in the Cartagena Commitment (TD/364).

2. The Standing Committee at its third session will have three substantive items on its agenda. Item 3 deals with the issue of establishing and improving the regulatory and supervisory systems in the insurance sector, in particular keeping in mind the ongoing processes of globalization and liberalization. Item 4 deals with possible solutions for improving the insurability of catastrophe risks in developing countries. Both items are supported by several documents prepared by the secretariat.

3. Item 5 considers, through the present report, work of the Standing Committee up to its third session that does not fall under one the above substantive items but which nevertheless constitutes an important part of the mandated work programme. This includes promotion of transparency as well as studies requested by the Standing Committee at its second session: "Credit guarantee funds for SMEs in developing countries" (UNCTAD/SDD/INS/8) and "Financial implications of agricultural insurance" (UNCTAD/SDD/INS/9). The report also cites work done by the secretariat in the field of technical cooperation and human resources development.

4. This review of progress attempts to outline possible areas of future work as a follow-up to the third session. In particular, it looks at possible but not exhaustive issues for substantive and analytical study, such as product distribution, underwriting techniques, life insurance, credit insurance, insurance services in the post-Uruguay/GATS environment and insurance and investment practices and regulation. Furthermore, potential technical cooperation projects are presented and their possible substance and direction are briefly outlined.

5. Finally, the review of progress made on the work programme briefly considers issues that will take the Standing Committee into the realm of UNCTAD IX.

Chapter I

PROMOTING TRANSPARENCY

6. Under recommendation "A Promoting transparency", adopted by the Standing Committee at its second session, it was agreed to continue to prepare on an ongoing basis:

(a) A statistical survey on insurance and reinsurance operations;

(b) A review of developments in insurance and reinsurance.

A. Statistical survey on insurance and reinsurance operations

7. In addressing this request, the secretariat has continued to conduct the statistical survey. So far 58 countries have submitted figures for the period up to and including 1992. The questionnaire is sent annually to more than 130 countries. A further update to cover all years including 1994 is currently under way. In order to upgrade the work of the Standing Committee in this field, insurance and reinsurance statistics will in future be loaded into an electronic database of which a mock version will be on demonstration during this third session. The electronic database is intended to promote a more efficient and precise evaluation of the relative performance of developing countries' insurance markets and their dependence on outside markets, and to encourage closer cooperation and exchange of business among developing countries.

B. Review of developments in insurance and reinsurance

8. For this item, under the heading of promoting transparency, the secretariat has prepared a document in the form of a newsletter. The newsletter aims to provide an assessment of developments in the insurance markets of developing countries and countries in transition on a country or regional basis and by class of insurance. It is intended that the newsletter appear biannually. The first edition contains articles on recent developments and trends in insurance of catastrophic risk, marine insurance, life insurance and insurance regulation and supervision. Where applicable, the newsletter describes UNCTAD's involvement in these issues. The newsletter also presents articles on the effects of the CFA devaluation on insurance in Africa, developments in the insurance market of the Russian Federation and the effect on export prices of subsidies for export credit guarantees.

Chapter II

FOSTERING COMPETITIVE INSURANCE SERVICES

9. Recommendation "B Fostering competitive insurance services", adopted by the Standing Committee at its second session called for research to be carried out on a number of particular areas. The documentation prepared by the secretariat is briefly outlined below.

A. Establishment of effective regulatory and supervisory systems (Recommendation B.4. of the Standing Committee at its second session)

10. Reforms aimed at introducing competitive insurance markets in developing countries and countries in transition may bring more entrepreneurial freedom, better resource allocation, increased productive efficiency and, ultimately, better insurance services at lower prices. In this context, the document "Establishment of effective regulatory and supervisory systems" (TD/B/CN.4/52) draws attention to the importance of effective prudential supervision of the insurance sector. It

examines how closer regulation and supervision of insurance markets may yield benefits in terms of market development and consumer protection. The document seeks to respond to the needs of many countries now in the process of discussing and reviewing their system of insurance regulation and supervision.

11. For its preparation, the secretariat has received inputs from an Expert Group meeting on insurance supervision and regulation, held from 19 to 20 June 1995 in Geneva. The results of the meeting are consolidated in the "Report of the Expert Group meeting on prudential regulation and supervision of insurance markets in developing countries and countries in transition to a market economy" (UNCTAD/SDD/INS/12). It was found that effective supervisory and regulatory systems, focusing particularly on consumer protection, should be in place when introducing competitive insurance markets in an economy undergoing liberalization and privatization reforms.

12. A third document in the form of a background note, "Regulation and supervision of insurance operations: analysis of responses to a questionnaire" (UNCTAD/SDD/INS/10) had been prepared for the above-mentioned Expert Group meeting on insurance supervision and regulation, and for the Standing Committee at its present session. The note summarizes results obtained from a questionnaire sent to bodies in charge of insurance supervision in developing countries.

B. Credit guarantee funds for SMEs in developing countries (Recommendation B.5. of the Standing Committee at its second session)

13. "Credit guarantee funds for SMEs in developing countries" (UNCTAD/SDD/INS/7) seeks to provide a synthesis of the different existing mechanisms related to the establishment and management of guarantee funds for credits appropriated to small and medium-sized enterprises (SMEs). The document introduces the concept of guarantee funds for SMEs, presents existing linkages with other forms of protection against payment defaults, in particular credit insurance, gives several examples of working schemes and presents an original initial model of a guarantee fund that may be implemented in a number of countries.

C. Catastrophe insurance (Recommendations B.6. through B.9. of the Standing Committee at its second session)

14. Countries are exposed to different catastrophe perils; within each country different zones hold different values for the purposes of estimating risks. In establishing a financially sound catastrophe insurance scheme, it is essential to obtain the necessary information relating to both the frequency and severity of the perils, such as earthquakes and floods, and the quantified values of the risks. Risk exposure should include property and asset value, and population density assessments. Intense risk concentration aggravates catastrophe exposure from an insurer's point of view.

15. Thus, the report "Developing schemes for catastrophe cover" (TD/B/CN.4/54) examines how perils and risks exposures are determined. It then discusses the financial resources required to cover adequately catastrophe schemes. It moreover explores the role Governments can play in facilitating catastrophe insurance. This may include passing legislation to require insurance cover and, in cases of inadequate financing, the government support that may be considered so as to guarantee payment of claims. The report also deals with acquiring additional financial capacity through reinsurance.

16. Two background documents complement the above report: "A ten country analysis of catastrophe exposure, insurance sector and country financial capacity to bear risk" (UNCTAD/SDD/INS/8) and "Comparative examples of existing catastrophe insurance schemes" (UNCTAD/SDD/INS/11).

D. Agricultural insurance (Recommendation B.10. of the Standing Committee at its second session)

17. The provision of insurance for agricultural risks and its income stabilization effect can contribute to increased efficiency and productivity of the agricultural sector while improving the social and economic well-being of all people living in rural areas. At the same time, insurers may benefit from developing an undeveloped insurance market. The background note entitled "Financial implications of agricultural insurance" (UNCTAD/SDD/INS/9) offers insights into potential financial problems that insurers may encounter when establishing or expanding agricultural insurance operations. In particular, it considers such issues as the ability of agricultural insurance to generate commercially viable premium volumes and the relationship between fixed variable costs in this class of insurance.

Chapter III

STRENGTHENING TECHNICAL COOPERATION AND HUMAN RESOURCES DEVELOPMENT

18. As regards the work programme element "C. Strengthening technical cooperation and human resources development", the secretariat continues to provide support, advice and training to a number of developing countries with a view to developing and strengthening their insurance sector.

19. In addition to the long-established cooperation with interregional and regional insurance organizations, new cooperation has been initiated with the International Association of Insurance Supervisors (IAIS), with a view to undertaking common activities in the area of development and training of insurance supervisory personnel.

20. Moreover, outside the scope of technical cooperation projects, two conferences were organized jointly with the Egyptian Reinsurance Company. They were held in April 1995, and were attended by more than 350 delegates from around the world. The conferences discussed, respectively, "Liberalization and privatization of insurance markets" and "Developing countries reinsurance in a world of change".

A. Ongoing or completed technical cooperation projects

21. Regarding technical cooperation projects, the following projects were continued or have been completed since the last reporting exercise.

1. Regional projects

22. The UNDP-funded project for ASEAN member countries aimed at improving the expertise available to the staff of ASEAN's insurance supervisory bodies in a number of technical fields was completed in early 1994.

2. National projects

23. A project for Bangladesh, funded by UNDP, which aimed to strengthen the training capacities at the Bangladesh Insurance Academy (BIA), has been discontinued after consultancy services and equipment were provided and a new curriculum drafted. The main reason for discontinuing the project was disruption owing to continuous changes at the management level of BIA.

24. Under a UNDP-funded project for the Maldives, the immediate objective of which was to improve the expertise available to the Allied Insurance Company of the Maldives, a government-controlled insurance company, a United Nations Volunteers Programme (UNV) advisor/consultant was fielded (October 1993 to September 1994)

charged with addressing all aspects of company management and general coordination of company activities, with particular emphasis on the training of staff of the company. In order to implement the UNV advisors recommendations for training of the staff, possible arrangements in terms of funding and training institutions were being sought.

25. A project for Myanmar funded by UNDP with the objective of contributing to the reorganization of the state-controlled insurance organization, in particular by increasing the expertise of its staff and its capabilities to service the needs of the Myanmar economy, was completed during the first semester of 1994.

B. New projects

26. A new project funded by the Government of the Grand Duchy of Luxembourg for African and Indian Ocean countries was started in August 1994, aimed at contributing to the establishment of competitive insurance markets in developing countries and improving the expertise of personnel of insurance supervisory authorities of concerned countries. Under the project, a report evaluating specific needs in terms of training of personnel of insurance supervisory offices of African and Indian Ocean countries and a proposal for a training programme was completed. Two seminars on "Supervision of Insurance Operations" were held respectively in Egypt (January 1995) and South Africa (July 1995). A third is planned for the Francophone speaking countries of Africa in the fall of 1995. Under the same project, and in cooperation with the IAIS, the College of Insurance of New York was commissioned to produce a "Manual on Supervision of Insurance". Following its review, this document will be translated and adapted into French, German, Portuguese, Spanish and Russian by the respective countries. The manual will be available in loose-leaf form to any supervisory authority requesting it and will allow easy adaptation to local laws and practices. Details on the continuation of this project are contained in the following chapter under section C "Technical cooperation and human resources development". (See paragraph 55.)

Chapter IV

AREAS OF CONCERN IN DEVELOPING COUNTRIES' INSURANCE SECTORS

27. Areas of concern regarding developing countries' insurance sectors may be addressed in accordance with the Standing Committee's practice of distinguishing between promoting transparency, fostering competitive insurance services and implementing technical cooperation projects in developing countries.

A. Promoting transparency

28. The work of the Standing Committee to date in this area has been presented in paragraphs 6, 7 and 8 above. In recognition of the ongoing nature of the work under consideration, the Standing Committee may wish to maintain the proposed activities, in particular as they relate to the collection and dissemination of developments, experiences and factual statistical information.

1. Statistical survey on insurance and reinsurance operations in developing countries

29. Work has continued on the conduct of the statistical survey of insurance and reinsurance operations in developing countries. The immediate future should see the establishment of an electronic database incorporating all available insurance data from developing countries. Following past practice, cooperation and compatibility would be maintained with other organizations that collect and provide insurance statistics on and for their member countries, mainly developed market economies. Consideration will be given to the incorporation of newly independent countries from Europe and Asia into the existing data framework.

2. Review of developments in insurance and reinsurance

30. Recognizing the principle of continuity as a basic premise for engaging in an exercise designed to enhance transparency, a review of insurance developments in developing countries and countries in transition may be presented periodically in the future. The subject area and information presented would depend on actual market and regulatory practice, while the form and presentation of material would depend on the objectives set by the third session as well as by pragmatic considerations.

B. Fostering competitive insurance services

31. The work of the Standing Committee up to the third session in this area has been presented in paragraphs 9 through 17 above. While the mandated and prepared reports are comprehensive, they do not exhaust the work programme of the Standing Committee. In the light of economic developments in the near future, the Standing Committee may wish to consider possible directions and areas of interest.

32. New forms of multilateralism have and are emerging, as a result of the establishment of WTO and the agreement by all member countries to negotiate and implement the global liberalization of trade. The anticipated outcome of liberalization and the opening up of markets will be a surge in world trade which will eventually lead to a new global order founded on the principles of sustainable economic development.

33. Future projects therefore would be guided by the principles of sustainable economic development under a competitive liberal environment. They will translate and crystallize into action the many issues arising by virtue of the newly negotiated multilateral trade regime and increase in volume and complexity of cross-border and foreign trade. New approaches are called for, and adjustments will have to be made by insurance enterprises in order, first to survive, and secondly, be a success within a highly competitive environment.

34. The UNCTAD secretariat is also mindful of the work programme identified in the biennium 1996-1997 budget for insurance. This work programme represents a coordinated product which is the direct result of UNCTAD's medium-term plan.

35. Finally, the current third session of the Standing Committee is the last session before UNCTAD IX. At this juncture the Standing Committee may wish to look at future directions of work to be decided at UNCTAD IX.

36. Promoting growth and sustainable development in a globalizing and liberalizing world economy is the theme of UNCTAD IX. The objective is to maximize the development impact of the current trends while minimizing the risks of marginalization of developing countries and of social and economic instability.

37. UNCTAD IX will have on its agenda four main topics:

" 1. Development policies and strategies in an increasingly interdependent world economy in the 1990s and beyond …
2. Promoting international trade as an instrument for development in the post-Uruguay Round world
3. Promoting enterprise development and competitiveness in developing countries and countries in transition
4. Future work of UNCTAD in accordance with its mandate; institutional implications."

38. In terms of policy implementation, UNCTAD IX will examine the opportunities for growth and development offered by the processes of globalization and liberalization, as well as the risks and potentially negative consequences inherent in these processes; it will also discuss the policies that would allow the opportunities to be grasped and the potentially negative consequences to be averted.

39. The areas of work set out below are reviewed in the context of the above-mentioned background and with a view to UNCTAD IX. Some areas tentatively identified for consideration are as follows:

1. Improving the effectiveness of insurance marketing and distribution in developing countries

40. Product distribution (i.e. marketing channels) urgently requires being upgraded in developing countries, so as to enable insurance companies to be more competitive and to capture new market opportunities resulting from liberalization. An examination would be made of the various techniques and strategies in distribution, such as tied and independent brokers and agents, and in different countries, with particular reference to their effectiveness, and to the adaption of needs of developing countries in terms of the development of human resources.

41. Comparisons will be drawn between ways and means of distribution in the countries of Europe and the United States of America as well as other industrial countries, and in newly industrializing countries. In the latter techniques appear to differ with regard to the rapid mobilization of human resources to develop their insurance market base.

2. Improvements in insurance underwriting techniques

42. In many developing countries, underwriting could be significantly improved by the development of systems, active and more accurate monitoring of accumulations, information sharing, risk mapping and education of the insurers in methods of risk control.

43. All of these steps should promote more effective use of scarce capital resources available to the insurance industries of many developing countries.

44. More systematic management of risk exposures at insurance company and industry level should help to improve stability in the insurance sectors of many developing countries.

45. With liberalization and privatization progressing rapidly in many parts of the world, their is an ever greater need to ascertain that the newly privatized insurance companies are pursuing underwriting practices which guard against overexposure to risk and risk accumulation which could lead to financial difficulties.

3. Long-term insurance

46. At the Standing Committee's second session, in 1994, a request was made for a study on life insurance. Since priority was given to other areas, the study on life insurance will not be taken up at the present session. However, a draft is being prepared so that the subject could be considered at a subsequent session.

47. Life insurance, in industrial countries, serves both the public and private sector. It constitutes a sizable share to the GDP of these countries. Life insurance companies are important institutional investors in the stock markets of their home countries, and are significant sources of domestic savings. In developing countries, the share of life insurance to GDP is markedly less with the exception of a few countries such as South Africa and the Republic of Korea. An analysis will highlight the potential in developing countries of expanding life insurance products as exemplified by a number of select countries.

48. In recent years, innovative life insurance products have been created to re-attract income earners, especially in Europe and other developed countries, seeking to try and recapture lost markets. In this context, it would also be opportune to compare the different types of products available in both developing and industrial countries. Particular reference will be made to hybrid products which combine, for example, life insurance with savings, health, pensions, and family education, i.e. family-oriented financial schemes.

4. Credit insurance

49. The Standing Committee at its second session, requested the secretariat to undertake a study on credit insurance. This study has been completed and is being circulated as a background paper at the current third session. Given the importance of credit insurance in commercial transactions and its anticipated widespread use in developing countries in the next two decades, the Standing Committee may wish to give more detailed consideration to this subject at a future session.

5. Insurance under GATS and multilateral trading

50. For the first time, the enormous services sector has been brought under one institution, the World Trade Organization (WTO). Many people believe that the success of WTO lies in the final negotiation and acceptance by members of the General Agreement on Trade in Services (GATS) which at the time of writing this report was still under negotiation. In many countries, services account for more than 50 per cent of GDP; the services sector is targeted to grow for most countries in the years ahead. A report on the issues and problems of providing insurance cover for cross-border services will benefit both consumers and insurers. At the same time, the liberalisation of services will give rise to scores of new opportunities, some of which may be discerned by reviewing the country-specific commitments made to WTO.

51. This is a subject which should be analyzed against the background of international trade and investment, and financial services, to which it is closely and directly linked.

6. Insurance and investment practices and regulation

52. Insurance and reinsurance entities and companies are large institutional investors in many countries. The nature of their business obliges them to hold, at any given moment, very large financial sums representing policy-holders funds, reserves and capital. Understandably, these sums are rarely held in single currency cash deposits; rather they may be invested in a variety of financial and real assets. This situation presents two challenges to the insurance sector. First, the insurers compare the nature of their insurance/risk portfolio with their investment portfolio. Sound financial management should guide insurers to achieve a proper asset-to-liability match. However, a lack of technical knowledge as well as a lack of insurance and investment opportunities may result in an unbalanced match. Secondly, with the liberalization of insurance markets and the proliferation of a multitude of investment vehicles, insurance supervisory authorities face the issue of deciding on the appropriateness of different securities and their use by insurers. Regulating and managing insurers' investment strategies in such a dynamic environment is a daunting task and merits the concern of developing countries' insurance sectors.

C. Technical cooperation and human resources development

53. Government requests have been continuously received to-date for future technical cooperation. These requests can be met only if adequate funding can be secured. Issues of concern and possible solutions are discussed in what follows.

1. African region

54. Many requests have been received for technical cooperation projects from Governments of African countries. The areas which these project could address are:

- Organizing seminars for African insurance educators aimed at defining Africa's needs for structured insurance training and training support at national, sub-regional and regional levels;
- Harmonizing African Insurance legislation and control mechanisms with a view to promoting intra-African trade in insurance and reinsurance;

- Promoting life insurance in African countries in order to mobilize resources for development and providing security to the vast majority of Africans who do not have any form of viable security;

- Risk mapping of African countries in order to enable African insurers to acquire an accurate profile of the risks to which they are exposed;
- Compilation of a list of African experts in insurance and related fields in collaboration with Africa Re;
- Implementation of sub-regional agricultural insurance programmes.

2. Other regions

55. The Government of the Grand Duchy of Luxembourg has agreed to fund a second phase (from August 1995 to July 1996) of the project for African and Indian Ocean countries (see paragraph 26 above). Under this second phase, three seminars on "Rating and Reserving" have been planned. The donor country has also agreed to extend the project to the countries members of the Caribbean Association of Insurance Regulations (CAIR) and to China. Two seminars are planned for China (tentatively one on "Product liability, business interruption and reinsurance" and a second on "Supervision of insurance operations"). For the CAIR, countries an initial seminar on "supervision of insurance operations" is to be held in the beginning of 1996. Also, a one-off event, a workshop provisionally entitled "The impact of liberalization on specific insurance operations", in cooperation with the Malaysian Insurance Institute, is planned to take place during the first half of 1996.

3. Funding

56. The UNCTAD Insurance Programme continuously receives regular requests for establishing technical cooperation projects throughout the year. Furthermore, the Standing Committee has proposed and directed the secretariat to increase its work in this area. In the past many insurance projects were financed from UNDP funds. In future, this is no longer a practical option as the UNDP has had its overall resources reduced and has shifted its emphasis towards "Sustainable Human Development" - an area only indirectly related to developing countries' concerns in the field of insurance.

57. Consequently, UNCTAD's technical cooperation programme in insurance can only be increased to levels sought by requesting countries and proposed by the Standing Committee if bilateral donors, at both the country and intercountry levels, make funds available for this purpose. Therefore, the secretariat urges the members of the Standing Committee to secure the financial contributions of their Governments for the establishment of a trust fund for technical cooperation projects in the field of insurance. Recognizing UNCTAD's commitment to devote particular attention to the situations and problems of Africa, the trust fund would have a special focus on the needs of the insurance sector in countries on the African continent.

58. An increase in work in the area of technical cooperation follows expectations of increased economic development and trade in a world characterized by globalization and liberalization. This heightened demand can be met only if members of the Standing Committee support the establishment of the proposed trust fund by urging their Governments to contribute financially. This would be a concrete way of demonstrating support for the view that investment in insurance brings significant returns to the economy, including indirectly to the poorest sections of the population.